

IIROC NOTICE

Rules Notice Notice of Approval / Implementation

Dealer Member Rules

Please distribute internally to:

Credit
Internal Audit
Legal and Compliance
Regulatory Accounting
Senior Management

Contact:

Answerd Ramcharan
Specialist, Member Regulation Policy
(416) 943-5850
aramcharan@iiroc.ca

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Acceptable Clearing Corporations and Acceptable Securities Locations – Amendments to IIROC Dealer Member Form 1

The IIROC Board of Directors have approved and confirmed the attached amendments to the General Notes and Definitions to the Joint Regulatory Financial Questionnaire and Report (Form 1), which were approved by the IDA Board of Directors on June 6, 2007. The amendments are effective December 19, 2008.

The amendments are to the definitions of acceptable clearing corporations and acceptable securities locations. The purpose of the amendments is to make it easier for IIROC to maintain and update, on a more timely basis, the list of entities that meet the definition of acceptable clearing corporations and the definition of acceptable securities locations (Depositories and Clearing Agencies). Previously, the qualifying entities were listed within the definitions themselves and therefore, any changes to them required IIROC to go through the normal rule amendment process, which can be lengthy.

IIROC will maintain and update the list of entities that qualify as acceptable clearing corporations and acceptable securities locations (Depositories and Clearing Agencies) through IIROC Notices. This list will also be available on the Supporting Schedules section of IIROC's website.



INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

AMENDMENTS TO THE GENERAL NOTES AND DEFINITIONS TO FORM 1

“DEFINITIONS:

(a) **“acceptable clearing corporations”** means ~~the following entities~~those entities considered suitable to provide a Member with securities or derivatives transactions clearing and settlement services. These entities are as follows:

1. ~~Canada~~ ~~The Canadian Depository for Securities Limited~~
~~Canadian Derivatives Clearing Corporation~~
~~WCE Clearing Corporation~~
2. ~~United States~~ ~~National Securities Clearing Corporation~~
~~Pacific Clearing Corporation~~
~~Stock Clearing Corporation of Philadelphia~~
~~Midwest Clearing Corporation~~
~~Boston Clearing Corporation~~
~~Board of Trade Clearing Corporation~~
~~Options Clearing Corporation~~
~~Chicago Mercantile Exchange Clearing Corporation~~
~~New York Commodity Exchange Clearing Corporation~~
3. ~~Other Foreign~~ ~~Euroclear~~
~~Cedel S.A.~~
~~International Securities Clearing Corporation~~

Any clearing agency operating a central system for clearing of securities or derivatives transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the clearing agency’s powers of compliance and enforcement over its members or participants. The Joint Regulatory Bodies will maintain and regularly update a list of those acceptable clearing corporations.

(b) **“acceptable counterparties”** means those entities with whom a Member may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entities are as follows:

1. Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. subordinated debt) in excess of \$10 million and less than or equal to \$100 million to qualify, provided acceptable financial information with respect to such entities is available for inspection.
2. Credit and central credit unions and regional caisses populaires with paid up capital and surplus or net worth (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
3. Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
4. Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents, with populations of 50,000 and over.
5. Mutual funds subject to a satisfactory regulatory regime with total net assets in the fund in excess of \$10 million.
6. Corporations (other than regulated entities) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.
7. Trusts and limited partnerships with minimum total net assets on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such trust or limited partnership is available for inspection.



8. Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets on the last audited balance sheet in excess of \$10 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
9. Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$15 million and less than or equal to \$150 million, provided acceptable financial information with respect to such entities is available for inspection.
10. Foreign insurance companies subject to a satisfactory regulatory regime with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$15 million, provided acceptable financial information with respect to such companies is available for inspection.
11. Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$15 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
12. Federal governments of foreign countries which do not qualify as a Basle Accord country.

For the purposes of this definition, a satisfactory regulatory regime will be one within Basle Accord countries.

Subsidiaries (excluding regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable counterparty may also be considered as an acceptable counterparty if the parent or affiliate provides a written unconditional irrevocable guarantee, subject to approval by the appropriate Joint Regulatory Body.

(c) **“acceptable institutions”** means those entities with which a Member is permitted to deal on an unsecured basis without capital penalty. The entities are as follows:

1. Government of Canada, the Bank of Canada and provincial governments.
2. All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.
3. Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. subordinated debt) in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
4. Credit and central credit unions and regional caisses populaires with paid up capital and surplus (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
5. Federal governments of Basle Accord Countries.
6. Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$150 million, provided acceptable financial information with respect to such entities is available for inspection.
7. Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
8. Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, and with total net assets on the last audited balance sheet in excess of \$200 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
9. Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$300 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.

For the purposes of this definition, a satisfactory regulatory regime will be one within Basle Accord countries.

Subsidiaries (other than regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable institution may also be considered as an acceptable institution if the parent or affiliate provides a written unconditional irrevocable guarantee, subject to approval by the appropriate Joint Regulatory Body.

(d) **“acceptable securities locations”** means those entities considered suitable to hold securities on behalf of a Member, for both inventory and client positions, without capital penalty, given that the locations meet the requirements outlined



in the segregation bylaws, rules or regulations of the Joint Regulatory Bodies including, but not limited to, the requirement for a written custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or disposition of the securities shall be made without the prior written consent of the Member and the securities can be delivered to the Member promptly on demand. The entities are as follows:

1. Depositories and Clearing Agencies

- ~~(a) Canada~~ ~~_____~~ ~~The Canadian Depository for Securities Limited~~
~~_____~~ ~~Canadian Derivatives Clearing Corporation~~
~~_____~~ ~~WCE Clearing Corporation~~
- ~~(b) United States~~ ~~_____~~ ~~Depository Trust Company~~
~~_____~~ ~~Pacific Securities Depository Trust Company~~
~~_____~~ ~~Midwest Securities Trust Company~~
~~_____~~ ~~Stock Clearing Corporation of Philadelphia~~
~~_____~~ ~~Options Clearing Corporation~~

~~(c) Other Foreign~~

~~Foreign~~ Any securities ~~depositories~~ depository or clearing ~~agencies incorporated or organized under the laws of the foreign country and~~ agency operating a central system for handling securities or equivalent book-based entries ~~in that country and~~ or for clearing of securities or derivatives transactions that is subject to ~~enabling~~ legislation and oversight by a central or regional government authority in the country of operation ~~that provides for~~. The legislation or oversight regime must provide for or recognize the securities depository's or clearing agency's powers of compliance and powers of enforcement over its members or participants. The ~~SROs~~ Joint Regulatory Bodies will maintain and regularly update a list of those ~~foreign~~ depositories or and clearing agencies that comply with these criteria.

- 2. (a) Acceptable Institutions which in their normal course of business offer custodial security services; or
(b) Subsidiaries of Acceptable Institutions provided that each such subsidiary, together with the Acceptable Institution, has entered into a custodial agreement with the member containing a legally enforceable indemnity by the Acceptable Institution in favour of the Member covering all losses, claims, damages, costs and liabilities in respect of securities and other property held for the Member and its clients at the subsidiary's location.
- 3. Acceptable Counterparties - with respect to security positions maintained as a book entry of securities issued by the Acceptable Counterparty and for which the Acceptable Counterparty is unconditionally responsible.
- 4. Banks and Trust Companies otherwise classified as Acceptable Counterparties - with respect to securities for which they act as transfer agent and for which custody services are not being provided (in such case, a written custody agreement is not required).
- 5. Mutual Funds or their Agents - with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.
- 6. Regulated entities.
- 7. Foreign institutions and securities dealers that satisfy the following criteria:
 - (a) the paid-up capital and surplus according to its most recent audited balance sheet is in excess of Cdn. \$150 million as evidenced by the audited financial statements of such entity;
 - (b) in respect of which a foreign custodian certificate has been completed and signed in the prescribed form by the Member's board of directors or authorized committee thereof;
provided that:
 - (c) a formal application in respect of each such foreign location is made by the Member to the relevant joint regulatory authority in the form of a letter enclosing the financial statements and certificate described above;
and
 - (d) the Member reviews each such foreign location annually and files a foreign custodian certificate with the appropriate joint regulatory authority annually.

and such other locations which have been approved as acceptable securities locations by the Joint Regulatory Body having prime jurisdiction over the Member.”